Workers' Compensation Advisory Committee (WCAC)

Meeting Minutes

December 5, 2005

Introductions:

Present:
Committee Members:

Business Representatives: Kris Tefft, Association of Washington Business; Jon Warling, Mon-Jon Orchards; Mike Sotelo, W.G. Clark Construction Company

Labor Representatives: Owen Linch, Joint Council of Teamsters No. 28; Dave Johnson, Washington Building & Construction Trades Council; Robby Stern, Washington State Labor Council, AFL-CIO

Self-Insured Employers' Representative: Katrina Zitnik, Costco Wholesale

Ex Officio Member: Tom Egan, Board of Industrial Insurance Appeals

Chair: Bob Malooly

Recorder: Laurie Jenkins

Absent Committee Member: Ellie Menzies, Service Employees State Council, Self-Insured Workers' Representative

Presenters: Tom Egan, Ernie LaPalm, Vickie Kennedy, Roy Plaeger-Brockway, Bill Vasek, Joshua Ligosky, Bob Malooly

Guests: Becky Bogard, Peter Bogdanoff, Amy Brackenbury, Janice Camp, Calhoon Dickinson, Nancy Dicus, Sarah Dylag, Dan Fazio, Timothy Harris, Dave Kaplan, Tom Kwieciak, Gary Smith, Vicky Smith, Bill Struyk

L&I Staff: Diane Doherty, Sandy Dziedzic, Lee Glass, Carl Hammersburg, Vickie Kennedy, Ron Langley, Ernie LaPalm, Joshua Ligosky, Robert Malooly, R.T. Nelson, Roy Plaeger-Brockway, Judy Schurke, Christine Swanson, Jean Vanek, Bill Vasek, Cheri Ward, Gary Weeks

Bob Malooly announced a change to today's agenda. The emergency rule on artificial discs would not be discussed. The department plans to schedule formal rulemaking hearing following the legislative session. We will start the CR-101 process so that we will have rules in placed by May or June 2006.

Bob next introduced the three following people to the committee: Kris Tefft has replaced Amber Carter on the Workers' Compensation Advisory Committee. Kris currently serves as General Counsel at the Association of Washington Business. Next, Diane Doherty is Acting Program Manager of Retrospective Rating. Diane brings a wealth of experience and knowledge to the team. Finally, Ron Langley has been appointment the Small Business Liaison to deal with problems of small businesses. Over the next year he will look at ways to deal with small business problems more effectively.

Review/Approval of September 26, 2005 Meeting Minutes – Minutes were approved as written.

> *Labor asked the status of the WCAC Vocational Advisory Subcommittee, which was discussed at the September meeting. Robby mentioned that names had been recommended, but neither he nor the individuals had heard any news.*

Bob replied that Vickie Kennedy will address this issue in a few minutes.

> Robby *asked if he could be reminded of who the Labor representatives are.*

Vickie Kennedy said she has contacted the representatives by email. The internal core improvement group is currently being organized; then we'll bring the external people together. She will discuss this later in the agenda.

Bob stated that BIAW requested to tape this meeting. Because the ATG had confirmed that approval by all meeting participants was unnecessary, he had given BIAW permission to tape this meeting. He then asked the committee if they desired L&I to tape future meetings as well.

> *Labor responded yes.*

> *Business asked if the tape of the meeting will be transcribed.*

Bob responded no. The tape will be stored in archives.

Board of Industrial Insurance Appeals Update - Tom Egan

Tom stated there were no surprises in the numbers this quarter. The numbers were down in total appeals received and granted compared to last year. The Board conducted a continuing education seminar on October 14. It was well attended, mostly with workers compensation practitioners. To date this fiscal year, the Board has received 4,232 compared to 4,366 in the prior year. He then provided a brief summary of the following graphs:

- *Appeals Filed and Granted by Month*: Including both Self-Insured and State Fund, almost 2,900 appealed filed last quarter, and appeals granted were about 1,800 last quarter.
- *Department Reassumption Rate by Quarter*: The Department reassumption rate was 29%, not .29% as indicated in the handout.
- *Quarterly Agreements and Dismissals as a Percent of Final Orders*: The number of quarterly agreements and dismissals are running neck and neck.
- *Affirmance Rate by* Month - PD&Os and D&Os: State Fund and Self-Insured affirmance rates are averaging around 65 percent and 50 percent, respectively.
- *Average PD&O Lag-time by Quarter for Hearing Judges:* The lag time last quarter was 28 days compared to 26 days in September 2004.
- *D&O Time*-Lag: Total time lag was 66 days; review judge time lag was 39 days.
- *Cumulative Average Weeks to Completion:* Average weeks continue to slope downward. In September 2005, the Board averaged 32.6 weeks from date filed to date of final order.
- *Caseload at End of Month:* Active appeals decreased from 5,433 in August 2005 to 5,366 in September 2005.
- *Final Orders Appealed to Superior Court-Quarterly*: Final orders appealed to the Superior Court in September 2005 were 81, decreasing from 105 in June 2005.

Assessment of Field Organization – Ernie LaPalm

Ernie LaPalm, Acting Deputy Director for Field Operations, updated the committee on the Department's Field Services assessment. He explained that Director Gary Weeks wanted an assessment of the strengths and weaknesses of field operations, as well as the relationship of field offices to Central Office operations. The study, which began in July 2005, involved L&I staff, customers and stakeholder focus groups. He reminded the committee that the agency last reorganized in 1993. At that time divisions were created in Central Office and six regions were created. Regional Administrators were charged with managing line staff; policy originated in Central Office.

The purpose of the Field Services assessment was to revisit the relationships between the field and four areas: fraud prevention and compliance, WISHA, Specialty Compliance, and Insurance Services Claims Administration, and how Field Services staff work with its customers. He explained that the Field cannot do its job without Central Office. The assessment consisted of four phases: performance measures and outreach, an extensive employee survey, external and internal focus groups, and intensive Central Office/Field Services work sessions, where each team met for one and one-half days in order to review, analyze and develop recommendations for the Leadership Team.

According to the data, there are some things that work well. People care about their jobs and their mission. Cross program communication forced people to solve problems and work cooperatively. Staff felt they had the tools to do their jobs. Also praised were the L&I website, COHE, WISHA consultations, Claims Administration unit in which employers were assigned a dedicated claim manager, and the stepped up efforts around fraud.

He then summarized what is not working well. Two-way communication between Central Office and the Field is not always consistent, which sometimes caused a lack of trust and confusion between roles. The Field would like to be more active in policy development. Central Office feels that the Field does not always follow instructions. There is a lack of consistency between the regions and Central Office, within Central Office, between different regions and within regions. As a result, roles and responsibilities are unclear. Both the Field and Central Office were unclear on who has final decision-making authority.

Ernie stated that we asked ourselves then if our current structure would fix these problems. We concluded that some changes in the Field structure and at Central Office would improve program and management accountability as well as generate clear and easily understandable lines of reporting between Central Office and the Field. Several reporting relationship changes were announced last week. Current compliance managers will become WISHA Compliance Managers. They will manage WISHA Safety, WISHA Compliance and data compilers, and will report to the Assistant Director of WISHA. Insurance Consultation Program Managers will become WISHA Consultation Managers. They will manage Prevention, Risk Management, WISHA Consultation, and Early Return to Work program. They too will report to the Assistant Director of WISHA. In addition to the six regional administrators, the Assistant Director for Specialty Compliance Services and the manager of Fraud Prevention and Compliance will now report to the Deputy Director of Field Operations. The Regional Administrators will be the primary contact with employers, labor, and elected officials in their regions.

Business asked if WISHA Compliance would report to the regional Administrators.

Ernie answered that the new reporting structure has WISHA Compliance reporting to Assistant Director of WISHA. Some smaller programs will report to Central Office. He informed the committee that January 1 is the target start date for implementing the structural changes and January 15 is the target start date for implementing systems changes.

> *Business asked who will be the new WISHA Director?*

Gary Weeks responded that the WISHA Director has not yet been chosen.

> *Business stated that the agency is basically going back to its old way of doing things. He asked if the agency had looked at why the 1993 changes were made. He further stated that system didn't work then and questioned whether going back would work now.*

The Director said he did not have previous history with L&I, but needs to be able to hold someone accountable in order to deliver the results our customers expect. He stated he believed the recommendations will move the agency in the direction he wants the agency to go. Ernie stated he will email the Field Services Assessment report to the committee.

> *Labor asked how many employees and stakeholders were surveyed?*

Ernie stated that he believed 140 stakeholders participated, and the Director stated that 1,045 employees submitted surveys.

> *Business asked if the Interim WISHA Assistant Director, Steve Cant, will help implement this new model. He cautioned the Director to check into the dysfunctional way things used to be done at L&I. He stated there were lots of issues and he needed to be careful. The Field Regional Administrators have been effective in dealing with rogue inspectors.*

The Director stated that what he hears doesn't support that opinion. Not all Regional Administrators have expertise in WISHA.

> *Labor stated concern about being able to operate with the speed that is necessary when an inspector must step in. As long as discussions have been held with the WISHA Advisory Council, then he was prepared to back-off from this issue. He then asked if there have been discussions with the WISHA Advisory Council.*

Ernie responded no.

> *Labor asked if there is a meeting scheduled?*

Someone from the audience responded February 8, 2006.

> *Labor asked the Director to describe his vision.*

Gary said he wanted to strengthen the consultation side, but he's not willing to give up on the compliance side. We would have a crisis solution. He wants a group of people who can get there quickly and make good decisions. He does not fault our inspectors. They are not trained for that. He thinks there is value in a good, strong consultation unit.

> *Labor asked what the Director is talking about beyond initial consultation. He further asked for examples for citations or inspections. He said he was not clear on what the process is.*

Gary said the process is that WISHA consultants perform workplace evaluations to provide the employer with a written report of recommendations. We try to identify unsafe workplaces. No citations are issued or penalties assessed. The employer has a year to fix the problem. They look at risk management, equipment, design a plan, and then follow up. If there is imminent danger or loss of life, the problems have to be fixed immediately. I want them paying attention to serious risk. I want employers recognized for doing good things. The notion here is to spend our limited resources well to encourage people to do a good job.

Bob Malooly added that we want to tell employers that if they make fixes, their rates won't go up. Most accidents are what are driving the costs. We want to get the message out through the consultation side. Workers' compensation rates will go down. We haven't done a good job of getting the word out to improve business. The Director asked if that helped answer his question.

> *Business said he understood philosophically.*

The Director said if a complaint comes in, it will be looked at. The employer can't pick and choose what to fix. We feel you can take a year out of regular enforcement if no fatalities.

> *Labor said he was concerned that labor hasn't been talked to, since you haven't discussed it with the WISHA Advisory Council yet.*

Ernie said that Ed Wood, a labor representative out of Spokane who serves on the Governor's Safety & Health Advisory Committee and the WISHA Advisory Committee, participated in the Field Services Assessment.

> *Labor said he would like a list of the people. This has gotten under the radar. A second Labor representative requested the list please be sent to all committee members.*

Gary stated that the Department needs a program with accountability from the front line to inspectors and on up.

> *Labor said not to misunderstand his input. Labor was opposed to the 1993 changes and we have been included in the discussions. This is where we'd like to go. We'd like to see an opportunity to at least react before implementation. As Owen said, "It may, in fact, operate better." I can't speak for the business side, but labor would like to respond.*

Bob then stated he was concerned about the time. We will provide the committee with the Field Assessment Report and recommendations.

Vocational Services Update – Vickie Kennedy

Vickie stated that in September the Director asked her to work closely with Rich Wilson, L&I's return-to-work manager, on vocational improvement issues. Vickie's focus is primarily stakeholdering and working with our external business and labor representatives. She and Rich have met with a number of providers and have formed an internal group of folks, who have met several times now. The external vocational improvement workgroup is now formed and consists of the following external members: Janet Lewis, Jeff Johnson, Lori Carlson and Terry Peterson. Vickie indicated they want the internal group to formulate legislative and prototype concepts first, for discussion with the external workgroup. They have talked with WorkSource, apprenticeship groups and community colleges to get as big a "tool box" as they could.

Vickie added that many community college programs are more than 12 months long, and are not available for injured workers. Bob admitted the Department has not used community colleges well in the past and that we are looking at ways we can expand the use of community colleges with appropriate controls.

> *Labor stated they had lots of experience with this issue, and suggested the Department seek input from Labor representatives about the JTVA program before the Department gets too far down road. A phone discussion with them may prove to be useful.*
>
> *Labor asked if this would be part of the 2006 L&I legislation initiatives.*

Vickie responded it would not be included in 2006, but may be part of what we do in 2007.

Healthcare Update – Roy Plaeger-Brockway

As manager of health care purchasing, Roy provided an overview of major health care issues.

He stated that the Department receives billings for approximately 3.1 million medical bills annually. He explained that the Department needs to adopt the National Provider Identifier (NPI), which is a federally mandated change. Under this new law, all healthcare providers must submit bills using a single federally issued identifier. Blue Cross, Blue Shield and all large HMOs will have to use this one-number system. May 2007 is the date targeted for implementation. The Department had an independent consultant review all L&I systems and determined changes will need to be made. The LIINIS system is also affected. As a result of this mandated change, the Department will make a supplemental budget request for $510,000 for additional programmer time. He further explained that if the Department fails to adopt the NPI, it will risk loss of access to providers, which would be a major issue. He asked the committee to support this supplemental budget request.

> *An audience member asked if there would be any advantage to the Department, i.e., saves money, provides efficiencies.*

Roy stated that he wasn't sure yet. He thought it would probably help with fraud by making it easier to cross match providers across state programs. The federal government plans to encourage the private sector to invest in electronic records. Having a consistent identifier will help nationally. Bob added that it may also help track problem providers.

Roy stated the Department is proceeding with a pilot of rewarding quality of orthopedic care in the COHE areas with the idea of expanding it if it works well. We currently have a prototype in Vancouver, and the Department is finding that it is improving timeliness of access. National experiments of linking incentives to quality indicators are being tracked.

In order to recruit and retain providers the Department is implementing a number of changes to reduce administrative burden. Based on feedback from surveys and input from medical and orthopedic associations, and COHE advisors, the Department is streamlining authorization, simplifying correspondence and forms and improving provider outreach.

> *Self-Insured Employers' Representative stated that she agreed in paying for quality, but it was her understanding that it was not permitted for the Self-Insureds in Washington. Are you paying more?*

Bob stated we want to get better results, and we need to look at that issue again.

> *Self-Insured Employers' Representative stated it is not just about access. If we're talking about paying extra for quality in the State Fund, then Self-Insureds could be able to have the same advantages.*
>
> *Labor stated that being able to set up is one thing and being able to monitor is another. We have that with COHE. We need to have some ability for accountability and what is considered quality.*
>
> *Self-Insured Employers' Representative stated that medical quality is not a labor/business discussion. We have been limited to fee schedules and would like to take advantage of this as well.*

Bob commented that self insured employers had not agreed to participate in COHE.

The Washington Self Insurance Association representative stated that the self-insured employers decided not to participate in COHE because they had not received answers to two questions. The questions were:

1) *Administratively, how would it work for self insured employers? How would information be captured? What additional reporting would be needed? Would there be any hold up in submitting claims?*
2) *Since we would paying for things we already do, what would self insured employers get out of it?*

As yet, he said they had not received answers to those questions.

Roy suggested this issue be placed on the next meeting's agenda. He then told the committee that the Department was expanding its physician peer review to identify doctors who are providing potentially inappropriate, harmful or unsafe care. We are coordinating with the Department of Health on the high risk physician issues. Because we have a huge volume of bills and a small audit staff, we are increasing audit capacity to ensure billing is correct and appropriate. Whenever billings appear fraudulent we are coordinating with the L&I fraud team.

Self-Insured Employers' Representative asked the Department's approach to evidence-based medicine.

Roy stated that we use outside peer reviews.

Business asked if the Department's budget request would come out of the Medical Aid Fund?

The Director responded yes.

Roy then touched briefly on the proposed COHE expansion. He said he expected to have 600 physicians after the expansion.

Reserve Reports – Bill Vasek/Joshua Ligosky

Bill Vasek informed the committee that Milliman had reviewed our reserves for unpaid losses and had given us a clean opinion. Copies of the report were available for handout on request.

Joshua Ligosky presented a report on the State Fund Liabilities for Unpaid Workers Compensation Losses as of June 30, 2005. He said that the liability in the Accident, Medical Aid and Pension Fund for unpaid losses was $8.1 billion as of June 30, 2005, net of claim overpayments and third-party recoveries. The reserves were analyzed by benefit type within each fund. The two largest reserves in the Accident Fund were the Total Permanent Disability Pension Award Reserves at almost $1.8 billion and Time Loss Payment Reserves at a little over $1 billion. In the Medical Aid Fund the largest reserve was for Medical Payments excluding Hearing Loss at just under $2.2 billion, and the Pension Reserve in the Pension Fund was just over $2.2 billion.

The estimated unpaid liabilities depend significantly on the following seven key reserving assumptions:

1. Core inflation rate will be 2.5% per annum.
2. The non-pension discount rate is equal to the core inflation rate.
3. The average medical inflation rate will be 3% above the core inflation rate.
4. The inflation rate for medical claims active 30 or more years after the injury date will be 1.1% above the average medical inflation rate.
5. Timeloss duration will grow at 2.25% per annum.
6. Timeloss claims that remain active beyond 13 years will ultimately become pension claims. Such timeloss claims are considered “Defacto Pensions.”
7. The pension discount rate is 6.5%

If the key assumptions were different the required reserves would be different. Exhibit 2 shows how the reserves would be increased or lowered if we used different assumptions.

Labor asked for clarification. When we say we are lowering our reserves, does that mean we will need fewer reserves?

Josh responded yes. The reserves are the present value of the future payments. For example if the timeloss duration growth turned out to be only 1.25% instead of the 2.25% the future payments would be lower, and the present value of those payments would be $112 million, or 1.37% lower.

Labor asked if we have tested our assumptions to see if they made sense?

Josh stated yes. We keep an eye on medical inflation rate and timeloss duration growth trends. The quarterly trends are volatile, and often differ from our assumptions which we expect will be true on average over the long term. Bill added that these assumptions are based on 35 years of data.

Self-Insured Employers’ Representative asked if the Pension Fund referenced in Exhibit 1, Liabilities for Unpaid Losses on page 6 referred to already granted pension?

Josh replied yes. The reserve for Total Permanent Disability Pension Awards is for pensions that have not been granted yet on injuries that have already occurred. The Pension reserve is for pensions that have already been granted.

A member of the audience asked given technology and better healthcare, why does timeloss keep increasing?

Bob stated that trends cannot be sustained long term. The COHE project shows us that timeloss duration can be shortened. There are lots of things we can do, but it is not a simple matter.

Self-Insured Employers’ Representative asked if the number of pensions is normal? Is it healthy for 50% of the reserves to go to pensions?

Bob replied that we obviously cannot sustain this system long term. This is an issue we must address.

Josh stated the reserving effect of a 1% change in the real medical inflation rate on claims 30+ years after the injury from 4.1% to 5.1% would increase reserves by 3.14%. Conversely, if we lower the real medical inflation at 30+ years to 3.1% it would reduce the indicated reserve by 2.23%.

Labor asked if we are assuming the average inflation rate of 5.5%?

Josh said yes.

Labor asked what percent is in the tail? How big is the tail?

Josh stated a 6.6% medical inflation assumption is used for the tail. Bill further added that on an undiscounted basis the tail is half the reserve. Bob reminded the committee to remember that the medical claims in the tail are catastrophic situations. Josh then directed the committee's attention to the chart of the reserve effect of a 2.5 year change in the defacto pension assumption.

Self-Insured Employers' Representative asked what does this mean?

Josh responded that one of the key reserving assumptions is that timeloss claims that are still active after 13 years will eventually become pension claims. Such claims are called defacto pension claims. If this assumption were changed to 10.5 years the reserves would decrease by 1.88% and if it was changed to 15.5 years the reserves would increase by 1.1%. Bill explained that this was due in part to the different discount rates used in the Accident and Pension Funds. Josh then discussed changes in the pension discount rate. Because the pension discount rate is high when compared to market yields we only considered the sensitivity of the reserves to reductions in the pension discount rate. A 1.5% reduction in this discount rate would increase reserves by over 7% and a 2.5% reduction would increase reserves by over 13%.

Labor asked how long do we anticipate watching before we bring that discount rate down?

Bill stated that we will discuss that issue further today. Josh then briefly reviewed Exhibit 3, the One-Year Change in Loss Estimates, and Exhibit 4, the Two-Year Change in Loss Estimates. The reserves are reviewed each quarter and they change at each review. The estimated losses can change because of changes in the reserving models and assumptions. For example, during fiscal year 2004 the timeloss duration growth assumption was reduced from 2.75% to 2.25%. There are also changes that occur even when there are no changes in the reserving models. As the reserve models are updated with new data each quarter, there may be differences between the new data and the data that had been predicted using the reserving models and assumptions. For example we have seen medical inflation of about 4.1% during fiscal year 2005 where a 5.5% medical inflation is used in the model. Exhibits 3 and 4 show the changes due to changes in the assumptions and reserving models separately from the changes due to differences between the actual data and the predicted data. There are a lot of things that are included in these changes. The largest model and assumption changes are due to removal of the 4% load, the reduction of the non-pension discount rate from 4% to 2.5%, and changing of the date to which losses are discounted. The major differences between actual and predicted data are due to lower than anticipated medical inflation and changes in pension frequency.

Labor asked how much a difference is accounted for dropping the 4% load?

Josh replied that the removal of the 4% load reduced the reserves by $232 million. Bob added that the reason for making changes is that we want to make sure our figures are as close as possible to what the costs will be. We are continuously updating our figures to show fair reflections.

Labor referenced a point made by the Director concerning the cost of pensions being unsustainable. He asked to what extent can we catch up with claims that should have been pensions?

Bob responded that we have been dealing with the shrinking number of claims managers and now have all the seats full. We are still struggling, however, to get resources in this tight budget to deal with the pension backlog. We are trying to do a better job. Gary stated we did not know how much catch-up played into the growth of pensions. We cannot say that pensions doubled by playing catch-up.

Labor stated this should be an important discussion.

Bill suggested anyone desiring a copy of the Reserve Report should call Laurie Jenkins. Bob then asked the committee to provide him with input regarding the changing pension discount rate. He asked if we wanted two separate rule makings or should we combine them?

Contingency Reserves by Fund – Bill Vasek

Bill directed the committee's attention to the handout entitled, Understanding the Variability of Contingency Reserve. The chart on page 1 illustrates the influence of investment gains, reserve model changes, and reserve development on the contingency reserve. The Medical Aid Fund in FY 2004 experienced stock market gains, which were not as favorable in FY 2005. In FY 2005, however, a more favorable reserve model change and reserve development was realized. This lead to gains in the contingency reserve over both years in the Medical Aid Fund. On the Accident Fund side of the chart in FY 2004 there was unfavorable reserve development, partially due to a greater frequency of pensions. In FY 2005, the reserve model changes were unfavorable, whereas the reserve development was favorable. The FY 2004 reserve development and the FY 2005 reserve model changes resulted in smaller increases in the contingency reserve in the Accident Fund. Bill then pointed out that the reserve development resulted in changes as large as 5% of the liabilities in some years. Changes of this magnitude are normal, and to be expected.

Bill showed the Committee a chart of Standard & Poor's 500 stock index annual returns between 1928 and 2005. It was almost a bell-shaped curve. He pointed out that the tail on the left of the bell is just a little bigger than the tail on the right. The standard deviation, a measure of the variability of the returns, was 20.2%. He explained that he considers returns 30% or more above or below the expected returns unstable in rate setting. For rate setting purposes we assume bond market yields on all of our invested assets, including stocks. Next year we are assuming a 6% yield. Over one year that means a 6% gain is assumed; over two years a 12% gain is assumed; and over three years an 18% gain is assumed. Looking at one-year, two-year, and three-year periods the chance of the actual returns being more than 30% different than the expected returns increases. Over a three-year period there is a 50% chance that the investment returns will differ from the expected returns by more than 30%. The State Fund invests approximately 17% of its assets in stocks, so a 30% change in the stock market return would result in a change of approximately 5% in the assets of the State Fund.

Bob stated this is a very important issue. Variability in the stock market is high. Gains in the equity portfolio have been good and contribute to growth in assets. Unfortunately, the disparity between the Accident Fund and the Medical Aid Fund presents a problem for us. He stated the Department will ask Conning to revisit this subject and then bring the issue back to the committee.

Business asked how the funds are invested.

The Director responded that the State Investment Board and Conning follow our instructions.

Self-Insured Employers' Representative stated the Medical Aid Fund is 30% in equities and the Accident Fund is 10% in equities.

Pension Discount – Bill Vasek

Bill next discussed the handout entitled, Changing the Pension Reserve Discount Rate. He pointed out that the reserves for the State Fund allowed pensions and the not-yet-allowed pensions were about the same, $1.8 billion. The Self-Insured second injury fund was $408 million and the cash-funded pensions amount to $49 million. He pointed out the changes in the contingency reserve and increased liability with each scenario change in pension discount rate.

> *Self-Insured Employers' Representative asked if the Department is taking money out of one fund to pay for another.*

Bill replied no. He then directed the committee to four contingency reserve scenarios with different pension discount percentage rates on page 3.

> *Labor asked how realistic the 6.5% pension discount is.*

Bob stated it is above the rate insurance regulators require. We need to fix it.

> *Labor then asked if we need to lower it.*

Bob responded it depends upon the market.

> *Labor asked what the Department is then thinking is reasonable.*

Bob said he didn't know. Given the trends, maybe we should use a five-year moving average of the Treasury yields as a benchmark. We need to decide the policy target. Typically, for insurance purposes we want to be below this benchmark. Gary added that this also affects the Self Insured folks. Nobody currently discounts at 6.5%. Others discount somewhere between 6.5% and 3.5%.

> *Labor asked if 6.5% is realistic?*

Bob stated we cannot change the pension discount rate without changing the rules. Gary stated we have a Medical Aid Fund that is over-reserved and an Accident Fund that is under-reserved. Bill clarified that the liabilities for losses in the Accident and Medical Aid Funds are neither over- nor under-reserved and that Gary was describing the contingency reserves being above or below targets levels.

> *Business stated he was concerned about letting legislation rob the fund. We don't need competition. We're a different bird.*

Vickie Kennedy directed the committee's attention to the green handout concerning pension discount rate changes and the rule promulgation process. We can combine the pension discount rate change with the pension rules already underway. If we do so, and there's any problem or significant changes in either set of rules, we will be unable to implement any of them without going back to public hearings. We also have the option of keeping the two packages separate.

A detailed discussion of the pension discount rate change, along with a discussion of the artificial disc rules, was agreed to for March 16, 2006.

2006 WCAC Meeting Schedule – Bob Malooly

The committee next discussed dates for 2006 quarterly meetings. The following schedule was agreed:

Date	**Time**	**Location**	**Notes**
March 16	9 to 4	Tumwater Auditorium	Regular and Special Meeting
May 30	9 to Noon	Tukwila Training Room	
August 28	9 to Noon	Tumwater: S117 & S118	Date changed from August 21
December 4	9 to Noon	Tukwila Training Room	

The meeting adjourned.